

Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

CHARTER TOWNSHIP OF AUSABLE
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2007

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AUDITORS' REPORT

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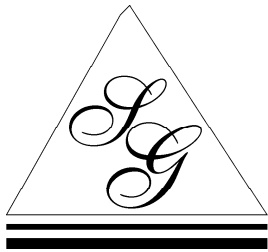
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May 15, 2008

Independent Auditors' Report

Members of the Township Board
Charter Township of AuSable
Iosco County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of AuSable, Iosco County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Charter Township of AuSable's basic financial statements as listed in the index. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of AuSable, Iosco County, Michigan, as of December 31, 2007, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2008, on our consideration of the Charter Township of AuSable's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of AuSable's basic financial statements. The supplemental information for CAPMARK Finance is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplemental information for CAPMARK Finance has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Stephenson, Gracik & Co., P.C.



Charter Township of AuSable

311 Fifth Street
AuSable, Michigan 48750

Office: (989) 739-9169 Water/Sewer (989) 739-1838 Fax (989) 739-0696
e-mail: ausable@alpena.cc.mi.us website: www.ausabletownship.net

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of the Charter Township of AuSable's (the Township) financial performance provides an overview of the Township's financial activities for the year ended December 31, 2007. The intent of this discussion and analysis is to look at the Township's financial performance as a whole.

Financial Highlights

Financial Highlights

The Township's assets exceeded its liabilities by \$5,655,189. Business-type activities (Enterprise Funds) account for \$4,989,299 of this total.

The Township's total net assets increased by \$355,736.

The Township's governmental funds reported a combined ending fund balance of \$605,798 this year, an increase of \$187,667. The entire amount is available for spending (*unreserved fund balance*) on behalf of its citizens. The General Fund 2007 fiscal year end fund balance is \$427,882. This reflects an increase of \$37,206 over fiscal year 2006. The Fire Fund 2007 fiscal year end fund balance is \$41,761. This reflects an increase of \$14,306 over fiscal year 2006.

The Township's total bonded indebtedness was reduced by \$218,000. This includes a reduction adjustment of \$80,957 on Huron Shore Regional Utility Authority contracts as a result of a decrease in water usage in 2007. No new debt was issued.

Overview of the Financial Statements

The financial statements are organized so the reader can understand the Township as a financial whole or as an entire operating entity. The statements also provide a detailed look at specific financial conditions.

The Township's basic financial statements are comprised of three components: The government-wide financial statements, fund financial statements, and notes to financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *statement of net assets* and the *statement of activities* display information about the Township as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for services.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities.

Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function.

Program revenues include charges paid by the recipient for the goods or services offered by the program and grants and contributions that are restricted to meeting the operational requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township with certain limited exceptions. The comparisons of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

With this report, capital assets are listed for the Charter Township of AuSable. These assets are comprised of buildings and improvements, machinery and equipment, distribution and collection system infrastructure, and land owned by the Township. These assets total over \$4.3 million.

Fund Financial Statements

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: *Governmental, Proprietary and Fiduciary*.

Governmental Funds:

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

- General Fund – This fund accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.
- Fire Fund – This fund accounts for fire department activities. Revenues are derived from a dedicated fire millage tax.

Proprietary Funds:

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users (citizens) for goods and services. The following are the Township's major enterprise funds:

- Sewer Fund – This fund accounts for fees collected for sewer services provided by the Township.
- Water Fund – This fund accounts for fees collected for water services provided by the Township.

Fiduciary Funds:

Fiduciary fund reporting focuses on net assets and changes in net assets. The Township's agency funds account for assets held by the Township for political subdivisions in which the Township acts as the fiscal agent.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided on the Township *government-wide* and *fund* financial statements. The notes to financial statements are presented in Exhibit K of this report.

Government -Wide Financial Analysis

Summary of Net Assets:

The following summarizes the net assets of the Charter Township of AuSable at December 31, 2007:

Net Assets Summary

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Current Assets	\$ 1,237,729	\$ 1,602,066	\$ 2,839,795	\$ 2,655,352
Restricted Assets	0	137,365	137,365	132,353
Noncurrent Assets	<u>58,567</u>	<u>3,841,167</u>	<u>3,899,734</u>	<u>3,942,384</u>
Total Assets	<u>1,296,296</u>	<u>5,580,598</u>	<u>6,876,894</u>	<u>6,730,089</u>
Current Liabilities	630,406	139,362	769,768	780,741
Long-Term Liabilities	<u>0</u>	<u>451,937</u>	<u>451,937</u>	<u>649,895</u>
Total Liabilities	<u>630,406</u>	<u>591,299</u>	<u>1,221,705</u>	<u>1,430,636</u>
Net Assets				
Invested in Capital Assets,				
Net of Related Debt	58,567	2,122,500	2,181,067	2,122,897
Restricted	0	137,365	137,365	132,353
Unrestricted	<u>607,323</u>	<u>2,729,434</u>	<u>3,336,757</u>	<u>3,044,203</u>
Total Net Assets	<u>\$ 665,890</u>	<u>\$ 4,989,299</u>	<u>\$ 5,655,189</u>	<u>\$ 5,299,453</u>

Summary of Changes in Net Assets:

Following is an analysis of the changes in net assets for fiscal year 2007 with comparative totals for 2006.

Generally speaking, the Township's net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for acquisition, construction, or improvement of those assets. The Charter Township of AuSable, through its governing body, i.e., township board, has taken a sensible approach vis-à-vis capital asset acquisition and amortization of the incurred debt. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws/regulations of other governments.

The Township Board has prudently set aside funds to offset potential personnel and/or administrative liabilities. It is the Township's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

	<u>Governmental Activities</u>	<u>Business -Type Activities</u>	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Program Revenues:				
Charges for Services	\$ 40,375	\$ 577,418	\$ 617,793	\$ 597,246
Operating Grants and Contributions	<u>146,119</u>	<u>0</u>	<u>146,119</u>	<u>8,384</u>
Total Program Revenues	<u>186,494</u>	<u>577,418</u>	<u>763,912</u>	<u>605,630</u>
General Revenues:				
Property Taxes	541,385	0	541,385	526,774
State Revenue Sharing	159,825	0	159,825	162,331
Rent Income	50	35,000	35,050	35,010
Gain on Sale of Capital Assets	0	18,424	18,424	0
Investment Earnings and Miscellaneous	<u>41,407</u>	<u>78,852</u>	<u>120,259</u>	<u>102,280</u>
Total General Revenues	<u>742,667</u>	<u>132,276</u>	<u>874,943</u>	<u>826,395</u>
Total Revenues	<u>929,161</u>	<u>709,694</u>	<u>1,638,855</u>	<u>1,432,025</u>
Program Expenses:				
General Government	322,147	0	322,147	283,666
Public Safety	287,679	0	287,679	281,907
Public Works	45,743	0	45,743	94,183
Health and Welfare	17,947	0	17,947	0
Community and Economic Development	25,185	0	25,185	33,862
Recreation and Cultural	31,425	0	31,425	34,515
Sewer Services	0	129,333	129,333	128,055
Water Services	<u>0</u>	<u>423,660</u>	<u>423,660</u>	<u>438,443</u>
Total Program Expenses	<u>730,126</u>	<u>552,993</u>	<u>1,283,119</u>	<u>1,294,631</u>
Change in Net Assets	199,035	156,701	355,736	137,394
Beginning Net Assets	<u>466,855</u>	<u>4,832,598</u>	<u>5,299,453</u>	<u>5,162,059</u>
Ending Net Assets	<u>\$ 665,890</u>	<u>\$ 4,989,299</u>	<u>\$ 5,655,189</u>	<u>\$ 5,299,453</u>

Governmental Activities

The *Statement of Activities* illustrates, by department, the expense incurred and revenue received.

Total governmental activities reveal revenues of \$155,354 from *Charges for Services and Operating Grants and Contributions*. The *Charges for Services* are fees for various licenses, and tax collection fees. *Operating Grants and Contributions* includes a contribution of assets to the Industrial Park Fund of \$139,913 from the AuSable-Oscoda Joint Industrial Park which was dissolved in March 2007. While revenue collected is minimal, operating expenses totaled \$730,126 for these same activities. The largest expenses were incurred by General Government Offices (\$322,147) and Public Safety (\$287,679).

Business-Type Activities

Charter Township of AuSable's *Business-Type activities* are limited to the Sewer and Water Funds.

Financial Analysis of Township Funds

As noted earlier in this report, the Township uses fund accounting to ensure and demonstrate compliance with finance-related statutory and legal requirements. A thorough review and examination of fund types will reveal the strengths and weaknesses of its daily operations.

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds: 1) General fund – accounts for all financial resources, except those required to be accounted for in another fund. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue; 2) Fire Fund – accounts for the receipt and expenditure of property taxes for fire department activities.

This year's Township audit shows three governmental funds. These funds are maintained by the Township as separate units in the general ledger.

Enterprise Funds

The Township's enterprise funds provide the same type of information found in the government-wide financial statements. Commonly, the sewer and water departments comprise these funds. GASB 34 places such funds under the caption of *Proprietary Funds* under the appropriate statements, i.e., *Statement of Net Assets*, *Statement of Cash Flows*, etc. More specific detail is seen in Exhibits G, H, and I.

Budgetary Highlights

General Fund Budgetary Highlights

The Township's budgets are prepared according to Michigan law. The most significant budgeted fund is the General Fund.

During the fiscal year ended December 31, 2007 the Township Board amended the budget to take into account events occurring during the year. These budget amendments fall into two categories:

- Changes made to reflect increases or decreases in anticipated expenditures
- Changes made to reflect increases or decreases in anticipated revenues

The General Fund actual revenue was \$683,554. That amount is above the original budget estimates of \$670,728 and below the final amended budget estimates of \$688,744. The variance between the actual revenues, the original budget and the final budget was mainly the result of changes in revenues from current property taxes, charges for services and interest.

The actual expenditures of the General Fund were \$646,348, which is above the original budget estimates of \$634,526 and below the final amended budget estimates of \$685,404. The variance between the actual expenditures, the original budget and the final budget was due to changes in spending in various areas.

The General Fund had total revenues of \$683,554, total expenditures of \$646,348 and an ending fund balance of \$427,882.

Capital Asset and Debt Administration

Capital Assets

Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at *historical cost* or *estimated historical cost* if purchased or constructed. Donated capital assets are recorded at estimated FMV (fair market value) at the date of donation.

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized, i.e., depreciated. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Capital Assets – Governmental Activities beginning balance was \$97,787 with an ending balance of \$110,854. Governmental Activities Total Capital Assets – Net of Depreciation was \$58,567.

Capital Assets - Business Type Activities beginning balance was \$4,029,170 with an ending balance of \$4,166,311. Business-Type Activities Total Capital Assets – Net of Depreciation was \$2,308,410, the major increase was for a \$129,153 waterline extension to River Road in 2007. An expanded and detailed presentation may be seen in Note 7 of the audit, notes to financial statements.

Long-Term Debt

At year's end, long-term debt (due in more than one year) amounted to \$451,937. Such debt includes *Contracts Payable* and *General Obligation Bonds Payable*.

Economic Factors and Next Year's Budget and Rates

A comprehensive water rate analysis has been commissioned by the Township Board to ensure that Sewer and Water rates are optimized for today's market conditions. The study should be completed in mid 2008 and may affect revenues if it concludes that rates need to be adjusted.

Next year's Building Authority (Senior Citizen) millage will once again be levied at the voted rate of .1 mill. The collection of that levy was suspended in 2007 due to an incorrect millage calculation on the 2006 levy. That millage will resume on the winter 2008 levy.

The Township Board and management staff are working diligently to keep expenditures down and to maintain revenue levels that are within their control. Property taxes account for approximately two thirds of the Township's General Fund revenues.

Revenue sharing from the State of Michigan is the next largest revenue source for the Township and this source is beyond the control of the Township. As revenue estimates for the State continue to decline, the Township may receive less funds than are currently budgeted. The Township's General Fund realized a 9.5% increase in fund balance in 2007 and these funds will be used to cover any shortfall in revenues.

The most significant expense remains employee related costs. Following are contracted and professional services, insurance and utilities. The remaining portion of the budget is comprised of operating expenses such as supplies, services, maintenance, and capital improvements.

The Township Board and staff will continue to monitor revenues and expenditures and take appropriate action to account for changes in economic factors.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Charter Township of AuSable located at 311 Fifth Street, AuSable, Michigan 48750.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF NET ASSETS
December 31, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 593,762	\$ 720,933	\$ 1,314,695
Investments (Note 2)	0	716,222	716,222
Receivables:			
Taxes	508,267	0	508,267
Accounts, net	2,773	54,868	57,641
Special assessments	0	64,012	64,012
Due from local units	2,180	0	2,180
Due from fiduciary funds (Note 4)	14,563	323	14,886
Internal balances	(15,803)	15,803	0
Inventory	131,987	29,905	161,892
Total current assets	1,237,729	1,602,066	2,839,795
Restricted assets:			
Cash and cash equivalents (Note 2)	0	137,365	137,365
Noncurrent assets:			
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,532,757	1,532,757
Capital assets, net (Note 7)	58,567	2,308,410	2,366,977
Total noncurrent assets	58,567	3,841,167	3,899,734
Total Assets	1,296,296	5,580,598	6,876,894
<u>Liabilities</u>			
Accounts payable	23,302	13,650	36,952
Due to fiduciary funds (Note 4)	2,541	32	2,573
Accrued interest	0	7,500	7,500
Deferred revenue	604,563	1,152	605,715
Long-term liabilities:			
Due within one year (Note 9)	0	117,028	117,028
Due in more than one year (Note 9)	0	451,937	451,937
Total Liabilities	630,406	591,299	1,221,705
<u>Net Assets</u>			
Investment in capital assets, net of related debt	58,567	2,122,500	2,181,067
Restricted for:			
Debt service (Note 1)	0	137,365	137,365
Unrestricted	607,323	2,729,434	3,336,757
Total Net Assets	\$ 665,890	\$ 4,989,299	\$ 5,655,189

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

				Net (Expense) Revenue and Changes in Net Assets		
				Primary Government		
		Program Revenues				
Function/Program	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental activities:						
General government	\$ 322,147	\$ 40,375	\$ 0	\$ (281,772)	\$ 0	\$ (281,772)
Public safety	287,679	0	3,118	(284,561)	0	(284,561)
Public works	45,743	0	2,309	(43,434)	0	(43,434)
Health and welfare	17,947	0	0	(17,947)	0	(17,947)
Community and economic development	25,185	0	139,913	114,728	0	114,728
Recreation and cultural	31,425	0	779	(30,646)	0	(30,646)
Total governmental activities	730,126	40,375	146,119	(543,632)	0	(543,632)
Business-type activities:						
Sewer services	129,333	99,169	0	0	(30,164)	(30,164)
Water services	423,660	478,249	0	0	54,589	54,589
Total business-type activities	552,993	577,418	0	0	24,425	24,425
Total primary government	\$ 1,283,119	\$ 617,793	\$ 146,119	(543,632)	24,425	(519,207)
General Revenues:						
Property taxes levied for:						
General operating				440,262	0	440,262
Public safety				101,123	0	101,123
State revenue sharing				159,825	0	159,825
Rent income				50	35,000	35,050
Interest and investment earnings				38,050	77,528	115,578
Gain on sale of capital assets				0	18,424	18,424
Other				3,357	1,324	4,681
Total general revenues				742,667	132,276	874,943
Change in net assets				199,035	156,701	355,736
Net assets - beginning of year				466,855	4,832,598	5,299,453
Net assets - end of year				\$ 665,890	\$ 4,989,299	\$ 5,655,189

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS
December 31, 2007

	General	Fire Fund	Other Governmental Fund Industrial Park Fund	Total Governmental Funds
<u>ASSETS</u>				
Cash and cash equivalents (Note 2)	\$ 513,434	\$ 76,160	\$ 4,168	\$ 593,762
Receivables:				
Taxes	400,845	107,422	0	508,267
Accounts, net	2,773	0	0	2,773
Due from local units	2,180	0	0	2,180
Due from other funds (Note 4)	14,645	37	0	14,682
Inventory	<u>0</u>	<u>0</u>	<u>131,987</u>	<u>131,987</u>
Total Assets	<u>\$ 933,877</u>	<u>\$ 183,619</u>	<u>\$ 136,155</u>	<u>\$ 1,253,651</u>
<u>LIABILITIES AND FUND EQUITY</u>				
<u>Liabilities</u>				
Accounts payable	\$ 22,819	\$ 483	\$ 0	\$ 23,302
Due to other funds (Note 4)	3,329	15,134	0	18,463
Deferred revenue (Note 8)	<u>479,847</u>	<u>126,241</u>	<u>0</u>	<u>606,088</u>
Total liabilities	<u>505,995</u>	<u>141,858</u>	<u>0</u>	<u>647,853</u>
<u>Fund Equity</u>				
Fund balances:				
Unreserved:				
Undesignated reported in:				
General fund	427,882	0	0	427,882
Special revenue funds	<u>0</u>	<u>41,761</u>	<u>136,155</u>	<u>177,916</u>
Total fund equity	<u>427,882</u>	<u>41,761</u>	<u>136,155</u>	<u>605,798</u>
Total Liabilities and Fund Equity	<u>\$ 933,877</u>	<u>\$ 183,619</u>	<u>\$ 136,155</u>	<u>\$ 1,253,651</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
December 31, 2007

Total governmental fund balances		\$	605,798
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. Capital assets at year end consist of:			
Capital asset cost	\$	110,854	
Capital asset accumulated depreciation		<u>(52,287)</u>	
			58,567
Other assets not available to pay for current period expenditures and, therefore, are deferred in the governmental funds:			
Accounts receivable			<u>1,525</u>
Total net assets - governmental activities		\$	<u>665,890</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
For the Year Ended December 31, 2007

	General	Fire Fund	Other Governmental Fund Industrial Park Fund	Total Governmental Funds
<u>Revenue</u>				
Current property taxes	\$ 471,402	\$ 101,123	\$ 0	\$ 572,525
Licenses and permits	3,913	0	0	3,913
State grants and revenue	165,252	0	0	165,252
Contributions from local units	779	0	139,913	140,692
Fines and forfeits	40	0	0	40
Charges for services	3,757	0	0	3,757
Interest and rentals	35,054	2,920	126	38,100
Other revenue	3,357	0	0	3,357
Total revenue	<u>683,554</u>	<u>104,043</u>	<u>140,039</u>	<u>927,636</u>
<u>Expenditures</u>				
Current:				
General government	321,466	0	0	321,466
Public safety	197,942	89,737	0	287,679
Public works	45,743	0	0	45,743
Health and welfare	17,947	0	0	17,947
Community and economic development	21,301	0	3,884	25,185
Recreation and cultural	28,882	0	0	28,882
Capital outlay	13,067	0	0	13,067
Total expenditures	<u>646,348</u>	<u>89,737</u>	<u>3,884</u>	<u>739,969</u>
Excess of revenue over expenditures	37,206	14,306	136,155	187,667
Fund balances - beginning of year	<u>390,676</u>	<u>27,455</u>	<u>0</u>	<u>418,131</u>
Fund balances - end of year	<u>\$ 427,882</u>	<u>\$ 41,761</u>	<u>\$ 136,155</u>	<u>\$ 605,798</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2007

Total net change in fund balances - governmental funds	\$	187,667
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Amounts reported for governmental activities in the statement of activities are different because:

Receivables not currently available are reported as revenue when collected or when currently available in the fund financial statements but are recognized as revenue when earned in the government-wide financial statements:

Accounts receivable		1,525
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital assets reported as capital outlays in the governmental funds	\$ 13,067		
Current year depreciation expense	<u>(3,224)</u>		
Net difference			<u>9,843</u>

Change in net assets of governmental activities	\$	<u>199,035</u>
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The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
December 31, 2007

	Enterprise Funds		
	Major Funds		
	Sewer Fund	Water Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 426,295	\$ 294,638	\$ 720,933
Investments (Note 2)	369,068	347,154	716,222
Receivables:			
Accounts, net	9,113	45,755	54,868
Special assessments	0	64,012	64,012
Due from other funds (Note 4)	46,376	21,208	67,584
Inventory	0	29,905	29,905
Total current assets	<u>850,852</u>	<u>802,672</u>	<u>1,653,524</u>
Restricted assets:			
Cash and cash equivalents (Note 2)	<u>17,888</u>	<u>119,477</u>	<u>137,365</u>
Noncurrent assets:			
Investment in Huron Shore Regional Utility Authority (Note 1)	0	1,532,757	1,532,757
Capital assets, net (Note 7)	<u>921,049</u>	<u>1,387,361</u>	<u>2,308,410</u>
Total noncurrent assets	<u>921,049</u>	<u>2,920,118</u>	<u>3,841,167</u>
Total Assets	<u>1,789,789</u>	<u>3,842,267</u>	<u>5,632,056</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable	3,668	9,982	13,650
Due to other funds (Note 4)	5,031	46,459	51,490
Accrued interest	0	7,500	7,500
Deferred revenue	576	576	1,152
Contracts payable, current (Note 9)	0	95,028	95,028
General obligation bonds payable, current (Note 9)	<u>0</u>	<u>22,000</u>	<u>22,000</u>
Total current liabilities	<u>9,275</u>	<u>181,545</u>	<u>190,820</u>
Noncurrent liabilities:			
Contracts payable (Note 9)	0	291,937	291,937
General obligation bonds payable (Note 9)	<u>0</u>	<u>160,000</u>	<u>160,000</u>
Total noncurrent liabilities	<u>0</u>	<u>451,937</u>	<u>451,937</u>
Total Liabilities	<u>9,275</u>	<u>633,482</u>	<u>642,757</u>
<u>Net Assets</u>			
Investment in capital assets, net of related debt	921,049	1,201,451	2,122,500
Restricted for:			
Debt service (Note 1)	17,888	119,477	137,365
Unrestricted	<u>841,577</u>	<u>1,887,857</u>	<u>2,729,434</u>
Total Net Assets	<u>\$ 1,780,514</u>	<u>\$ 3,208,785</u>	<u>\$ 4,989,299</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUNDS
For the Year Ended December 31, 2007

	Enterprise Funds		
	Major Funds		
	Sewer Fund	Water Fund	Total
<u>Operating Revenue</u>			
Charges for services	\$ 99,169	\$ 478,249	\$ 577,418
Hydrant rental	0	35,000	35,000
Miscellaneous	279	1,045	1,324
Total operating revenue	<u>99,448</u>	<u>514,294</u>	<u>613,742</u>
<u>Operating Expenses</u>			
Salaries	13,270	56,049	69,319
Payroll taxes and employee benefits	5,666	25,234	30,900
Office and operating supplies	6,737	17,129	23,866
Water and sewer	58,892	36,691	95,583
Contractual services	4,479	174,873	179,352
Vehicle expense	1,070	4,495	5,565
Travel	3	192	195
Depreciation	<u>39,216</u>	<u>69,461</u>	<u>108,677</u>
Total operating expenses	<u>129,333</u>	<u>384,124</u>	<u>513,457</u>
Operating income (loss)	<u>(29,885)</u>	<u>130,170</u>	<u>100,285</u>
<u>Non-operating Revenue (Expenses)</u>			
Interest on special assessments and connections	0	5,658	5,658
Interest income	36,770	35,100	71,870
Gain on sale of capital assets	0	18,424	18,424
Interest expense and paying agent fees	<u>0</u>	<u>(39,536)</u>	<u>(39,536)</u>
Total non-operating revenue (expenses)	<u>36,770</u>	<u>19,646</u>	<u>56,416</u>
Change in net assets	6,885	149,816	156,701
Net assets - beginning of year	<u>1,773,629</u>	<u>3,058,969</u>	<u>4,832,598</u>
Net assets - end of year	<u>\$ 1,780,514</u>	<u>\$ 3,208,785</u>	<u>\$ 4,989,299</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
For the Year Ended December 31, 2007

	Enterprise Funds		
	Major Funds		
	Sewer Fund	Water Fund	Total
<u>Cash Flows From Operating Activities</u>			
Receipts from customers	\$ 100,413	\$ 513,051	\$ 613,464
Payments to Suppliers for Goods and Services	(72,015)	(263,444)	(335,459)
Payments to Employees for Services	(18,936)	(81,583)	(100,519)
Net cash provided by operating activities	9,462	168,024	177,486
<u>Cash Flows From Noncapital Financing Activities</u>			
Cash received from (paid to) other funds	(39,664)	62,318	22,654
<u>Cash Flows From Capital and Related Financing Activities</u>			
Cash received for special assessments	0	11,076	11,076
Interest received on special assessments and connections	0	5,658	5,658
Proceeds from sales of capital assets	0	18,424	18,424
Acquisition and construction of capital assets	(1,622)	(135,519)	(137,141)
Principal paid on long-term debt	0	(137,043)	(137,043)
Interest paid on long-term debt	0	(41,193)	(41,193)
Net cash used by capital and related financing activities	(1,622)	(278,597)	(280,219)
<u>Cash Flows From Investing Activities</u>			
Interest on investments	17,702	19,908	37,610
Proceeds from maturity of investment securities	369,068	0	369,068
Purchase of investment securities	(369,068)	0	(369,068)
Net cash provided by investing activities	17,702	19,908	37,610
Net decrease in cash and cash equivalents	(14,122)	(28,347)	(42,469)
Cash and cash equivalents at beginning of year (Note 1)	458,305	442,462	900,767
Cash and cash equivalents at end of year (Note 1)	\$ 444,183	\$ 414,115	\$ 858,298
<u>Noncash Capital and Related Financing Activities</u>			
The Water Fund recorded noncash activity in the form of a decrease in contracts payable and investment in Huron Shore Regional Utility Authority of \$80,957. This was the result of a decrease in AuSable Township's actual water usage percentage in the current year's joint venture membership gallon usage calculation.			
<u>Reconciliation of operating income (loss) to net cash provided by operating activities</u>			
Operating income (loss)	\$ (29,885)	\$ 130,170	\$ 100,285
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation expense	39,216	69,461	108,677
Change in assets and liabilities:			
Accounts receivable, net	389	(1,819)	(1,430)
Inventory	0	(4,908)	(4,908)
Accounts payable	(834)	8,859	8,025
Accrued liabilities	0	(300)	(300)
Due to local units	0	(34,015)	(34,015)
Deferred revenue	576	576	1,152
Net cash provided by operating activities	\$ 9,462	\$ 168,024	\$ 177,486

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
December 31, 2007

	<u>Tax Account</u>	<u>Trust and Agency</u>	<u>Payroll Fund</u>	<u>Total</u>
<u>ASSETS</u>				
Cash and cash equivalents (Note 2)	\$ 596,552	\$ 1,676	\$ 478	\$ 598,706
Due from others	0	0	203	203
Due from state	0	0	96	96
Due from federal government	0	0	193	193
Due from local units	2,874	0	0	2,874
Due from other funds (Note 4)	<u>2,541</u>	<u>0</u>	<u>32</u>	<u>2,573</u>
Total Assets	<u>\$ 601,967</u>	<u>\$ 1,676</u>	<u>\$ 1,002</u>	<u>\$ 604,645</u>
<u>LIABILITIES</u>				
Due to others	\$ 25	\$ 1,670	\$ 0	\$ 1,695
Due to other funds (Note 4)	13,878	6	1,002	14,886
Deferred revenue	<u>588,064</u>	<u>0</u>	<u>0</u>	<u>588,064</u>
Total Liabilities	<u>\$ 601,967</u>	<u>\$ 1,676</u>	<u>\$ 1,002</u>	<u>\$ 604,645</u>

The accompanying notes to financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Charter Township of AuSable have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. Private-sector standards of accounting issued after November 30, 1989, are generally followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The following is a summary of the significant accounting policies.

A. Reporting Entity

The Charter Township of AuSable was organized in 1985 under the Charter Township Act of 1947. The Charter Township operates under an elected Board and provides services to its residents in many areas including law enforcement, fire protection, library, and water and sewer services. All activities over which the Township exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Joint Ventures

The Township has entered into several joint ventures with various municipalities described as follows:

1. Oscoda-AuSable Township Senior Center Building Authority:

The Building Authority was established to provide for the acquisition and construction of certain public buildings, parking lots or structures, recreational facilities and the necessary sites therefore. Complete financial statements can be obtained from the AuSable Township Clerk's office.

2. AuSable-Oscoda Joint Industrial Park:

The Joint Industrial Park, a joint venture between the Charter Townships of AuSable and Oscoda, was dissolved as of March 19, 2007. The available cash balance was shared equally by the two Townships and the ownership of the Industrial Park properties was transferred to the Charter Township of AuSable. The Township established a new Special Revenue Fund to account for all activity in the Industrial Park from March 19, 2007 forward. Based upon the agreement upon dissolution the Charter Township of Oscoda will receive an equal share of the proceeds on any future sales of any lots that existed at the date of dissolution based upon a land value distribution schedule approved in the resolution for dissolution.

3. Huron Shore Regional Utility Authority:

The Huron Shore Regional Utility Authority was established as a joint venture between the Charter Township of AuSable, City of East Tawas, City of Tawas City, Charter Township of Oscoda, Township of Alabaster, Township of Baldwin, all municipalities in Iosco County, and the Township of Greenbush in Alcona County. The Authority was established to acquire, own, improve, enlarge, extend and operate water supply and distribution systems and sewage disposal systems. The initial contract amount plus any adjustment for the Charter Township of AuSable's share of the contracts is recorded as Investment in Huron Shore Regional Utility Authority in the Water Fund of the Township because title to the water and sewer systems belong to the Authority.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Joint Ventures (Continued)

3. Huron Shore Regional Utility Authority: (Continued)

The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the Township's share is 14.39% of the total bond issue of \$7,930,000 or \$1,141,127. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of AuSable is making payments through charges for services.

In 1995, the Township entered into a joint water and sewer system agreement for the purpose of constructing additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority Water and Sewer System No. 1, with the City of Tawas City, Charter Township of Oscoda and the Township of Baldwin. The most current estimate of the Township's share is 17.34% of the total bond issue of \$1,300,000 or \$225,420. Each entity's percentage of payback will be based on actual gallon usage to be adjusted on an annual basis. The assets of the joint water supply system are the property of the Huron Shore Regional Utility Authority and, therefore, are not presented in these financial statements. The members of this joint venture have pledged their full faith and credit for the payment and are obligated to make such payments from their water funds, including ad-valorem taxes, if necessary. Currently, the Charter Township of AuSable is making payments through charges for services.

Each municipality makes an annual operation and maintenance contribution based on their proportionate share of the adopted annual budget. The Charter Township of AuSable's contribution for the year ended December 31, 2007 was \$133,023. The current value of the Charter Township of AuSable's investment in the Huron Shore Regional Utility Authority is \$1,532,757. Complete financial statements can be obtained from the Huron Shore Regional Utility Authority's office.

4. Oscoda-Wurtsmith Airport Authority:

The Oscoda-Wurtsmith Airport Authority functions as a jointly governed organization between the County of Iosco, County of Alcona, Charter Township of Oscoda, Charter Township of AuSable and the Township of Greenbush. The Airport Authority was established to provide for planning, promoting, acquiring, constructing, improving, enlarging, extending, owning, maintaining and operating the landing, navigational and building facilities necessary thereto, at the former Wurtsmith Air Force Base, for the purpose of providing a Community Airport. The Charter Township of AuSable has no financial obligation to the Airport Authority. Complete financial statements can be obtained from the Airport Authority Manager's office at 3961 East Airport Drive, Oscoda, Michigan 48750.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

The Township's basic financial statements consist of government-wide financial statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the Township as a whole. These statements include the financial activities of the primary government except for fiduciary funds. For the most part, the effect of interfund activity has been removed from the statements. The statements distinguish between those activities of the Township that are governmental in nature and those that are considered business-type activities. Governmental activities are normally supported by taxes and intergovernmental revenues while business-type activities rely to a significant extent on fees and charges for support.

The statement of net assets presents the financial condition of the governmental and business-type activities of the Township at year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Township's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Township, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the Township.

Fund Financial Statements

During the year, the Township segregates transactions related to certain Township functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Township at this more detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type, and are excluded from the government-wide financial statements.

D. Fund Accounting

The Township uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Accounting (Continued)

Governmental Funds

Governmental funds are those through which most governmental functions of the Township are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Township's major governmental funds:

General Fund – This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from property taxes and state and federal distributions, grants and other intergovernmental revenue.

Fire Fund – This fund accounts for the receipt and expenditure of property taxes for fire department activities.

The other governmental fund of the Township accounts for costs associated with improvement of lots and operating expenditures of the Industrial Park, and the sale of available remaining lots.

Proprietary Funds

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Township's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the Township's major enterprise funds:

Sewer Fund - This fund accounts for fees collected for sewer services provided by the Township.

Water Fund - This fund accounts for fees collected for water services provided by the Township.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. These funds are used to account for assets held by the Township for political subdivisions in which the Township acts as a fiscal agent for others. The Township uses these funds to account for current tax collections, deposits held for water affidavits, and processing payroll.

E. Measurement Focus

Government-Wide Financial Statements

The government-wide financial statements are prepared using a flow of economic resources measurement focus.

All assets and liabilities associated with the operations of the Township are included on the statement of net assets.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus (Continued)

Fund Financial Statements

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for governmental funds.

Like the government-wide financial statements, the enterprise funds are accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Township finances and meets the cash flow needs of its enterprise activities.

F. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide, proprietary and fiduciary fund financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Revenues – Exchange and Non-exchange Transactions

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Township, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Township receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Township must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Township on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Basis of Accounting (Continued)

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest, and rent.

Deferred Revenues

Deferred revenues arise when assets are recognized before the revenue recognition criteria have been satisfied.

Property taxes for which there was an enforceable legal claim at December 31, 2007, but were levied to finance 2008 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements were met have also been recorded as deferred revenue.

On governmental fund financial statements, receivables that were not collected within the available period are recorded as deferred revenue.

Expenses/ Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

G. Budgets and Budgetary Accounting

The Township normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Township Superintendent submits to the Township Board a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to January 1, the budget is legally enacted through passage of a resolution .

All budget appropriations lapse at year end. Budgetary amounts reported herein are as originally adopted, or as amended by the Township Board. The Township adopts budgets for the General Fund and Special Revenue Funds.

The budgets of the Township are prepared on the same basis of accounting as the financial statement presentation. The budgets were adopted at the functional level.

The legal level of control is at the functional level for the General Fund and the Special Revenue Funds.

Revisions that alter the total expenditures of any fund or total department expenditures must be approved by the Township Board. The financial statements include budgetary amounts as amended.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Township are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

Investments are reported at fair value, except for repurchase agreements and certificates of deposit which are reported at cost. Fair value is based on quoted market prices. Mutual funds are reported at current share price.

I. Receivables

Receivables at December 31, 2007, consist of accounts (fees), taxes and special assessments. All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectability.

The allowance for doubtful accounts at December 31, 2007 was \$0.

J. Interfund Receivables and Payables

On the fund financial statements, receivables and payables resulting from short-term interfund loans or interfund services provided and used are classified as "due from/to other funds". Interfund balances within governmental activities and within business-type activities are eliminated on the government-wide statement of net assets. The interfund balances which remain on the government-wide statement of net assets are those between governmental and business-type activities. These amounts are reflected as "Internal Balances". Balances due from/to fiduciary funds are also reported on the government-wide statement of net assets.

K. Inventories

Inventories are recorded at cost in the governmental activities and the lower of cost and market in the business-type activities with cost determined on a first-in, first-out basis. All purchases for materials are reflected in expenses when paid in the other funds. The inventory in the governmental activities represents costs and improvements of lots held for resale in the Industrial Park Fund.

L. Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements. Capital assets used by the enterprise funds are reported in both the business-type activities column of the government-wide statement of net assets and in the respective funds.

Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

The Township's infrastructure consists of water and sewer lines. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. Interest incurred during the construction of enterprise fund capital assets is also capitalized.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	25 - 50 years
Land Improvements	11 - 20 years
Machinery and Equipment	5 - 10 years
Infrastructure /Utility Systems	20 - 50 years

M. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. All payables, accrued liabilities, and long-term obligations payable from the enterprise funds are reported on the enterprise fund statement. In general, payables and accrued liabilities that will be paid from the governmental funds are reported as a liability in the fund financial statements at the time they are incurred, to the extent that they will be paid from current, expendable, financial resources. However, bonds and other long-term obligations, compensated absences, claims and judgments, contractually required pension contributions and special termination benefits that are paid from governmental funds are recognized as liabilities in the fund financial statements only to the extent that they are due for payment during the current year.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Township or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Township's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

O. Restricted Assets

Restricted assets are those assets required to meet the covenants and conditions of bond indentures.

P. Restricted Net Assets

Restricted net assets represent amounts in the water and sewer funds required for maturing interest and principal on bonds and replacement and improvement funds as established by Ordinance No. 22 and cash held by the Oscoda-AuSable Utility Authority for additional sewer construction.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Township, these revenues are charges for services for water and sewer usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

S. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
<u>Current Assets</u>				
Cash and Cash Equivalents	\$ 593,762	\$ 720,933	\$ 598,706	\$ 1,913,401
Investments	<u>0</u>	<u>716,222</u>	<u>0</u>	<u>716,222</u>
Total Current Assets	593,762	1,437,155	598,706	2,629,623
<u>Restricted Assets</u>				
Cash and Cash Equivalents	<u>0</u>	<u>137,365</u>	<u>0</u>	<u>137,365</u>
	<u>\$ 593,762</u>	<u>\$ 1,574,520</u>	<u>\$ 598,706</u>	<u>\$ 2,766,988</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking and savings accounts and certificates of deposit)	\$ 2,766,520
Petty Cash and Cash on Hand	<u>468</u>
Total	<u>\$ 2,766,988</u>

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

In accordance with its investment policy, the Township will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Township's known cash requirements.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Township's deposits may not be returned to it. As of December 31, 2007, \$2,540,335 of the Township's bank balance of \$2,883,906 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Concentration of Credit Risk

The Township will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Foreign Currency Risk

The Township's investment policy does not address foreign currency risk.

Investments:

The Township Board has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Township to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations .
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States .
- * United States government or federal agency obligation repurchase agreements .
- * Banker's acceptances of United States banks .
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase . Not more than 50% of any fund may be invested in commercial paper at any time .
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation .

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Township's deposits and investments are in accordance with statutory authority.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 3 - PROPERTY TAXES

Property taxes become an enforceable lien on property as of December 1. Taxes are levied on December 1, and are payable by February 28. Township taxes levied December 1 are considered revenue for the subsequent year; therefore, taxes receivable in the governmental funds have been offset by deferred revenue. Real and personal property for the December 1, 2007 levy had a taxable value of \$96,912,620 and equalized at \$126,680,050, representing 50% of estimated current market value. The 2007 operating tax rates are currently 4.5903 mills for operating and 1.3000 mills for fire protection.

NOTE 4 - RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of December 31, 2007 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 14,645	\$ 3,329
Fire Fund	37	15,134
Total Major Governmental Funds	<u>14,682</u>	<u>18,463</u>
Major Enterprise Funds:		
Sewer Fund	46,376	5,031
Water Fund	<u>21,208</u>	<u>46,459</u>
Total Major Enterprise Funds	<u>67,584</u>	<u>51,490</u>
Fiduciary Funds	<u>2,573</u>	<u>14,886</u>
	<u>\$ 84,839</u>	<u>\$ 84,839</u>

The amounts of interfund receivables and payables for the primary government as of December 31, 2007 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General Fund	\$ 6	Trust and Agency Fund	\$ 6
General Fund	13,841	Tax Account Fund	13,841
General Fund	14	Fire Fund	14
General Fund	22	Sewer Fund	22
General Fund	83	Water Fund	83
General Fund	679	Payroll Fund	679
Fire Fund	37	Tax Account Fund	37
Sewer Fund	46,376	Water Fund	46,376
Water Fund	4,977	Sewer Fund	4,977
Water Fund	323	Payroll Fund	323
Water Fund	1,313	General Fund	1,313
Water Fund	14,595	Fire Fund	14,595
Tax Account Fund	2,016	General Fund	2,016
Tax Account Fund	525	Fire Fund	525
Payroll Fund	<u>32</u>	Sewer Fund	<u>32</u>
Totals	<u>\$ 84,839</u>		<u>\$ 84,839</u>

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 5 - PENSION

The Township has adopted a defined contribution pension plan covering all full-time employees. The plan is administered through Met Life Insurance Company.

A defined contribution pension plan provides pension benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, are at least age 18 but not more than age 75.

Contributions made by the Township vest immediately.

The Township's contribution is based on annual compensation and seven different classes.

During the year, the Township's required and actual contributions amounted to \$11,500.

No Pension provision changes occurred during the year that affected the required contributions to be made by the Township.

NOTE 6 - UNEMPLOYMENT COMPENSATION

The Township is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Township must reimburse the Employment Agency for all benefits charged against the Township. All liabilities incurred have been accrued in the financial statements as of December 31, 2007.

NOTE 7 - CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increase s</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated:				
Land Improvement	\$ 7,722	\$ 0	\$ 0	\$ 7,722
Buildings and Improvements	84,065	0	0	84,065
Machinery and Equipment	6,000	13,067	0	19,067
Subtotal	<u>97,787</u>	<u>13,067</u>	<u>0</u>	<u>110,854</u>
Less Accumulated Depreciation for:				
Land Improvement	0	772	0	772
Buildings and Improvements	43,063	1,353	0	44,416
Machinery and Equipment	6,000	1,099	0	7,099
Subtotal	<u>49,063</u>	<u>3,224</u>	<u>0</u>	<u>52,287</u>
Governmental Activities Total				
Capital Assets - Net of Depreciation	<u>\$ 48,724</u>	<u>\$ 9,843</u>	<u>\$ 0</u>	<u>\$ 58,567</u>

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 7 - CAPITAL ASSETS (CONTINUED)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$ 8,274	\$ 0	\$ 0	\$ 8,274
Capital Assets Being Depreciated:				
Land Improvement	5,460	0	0	5,460
Buildings	33,664	0	0	33,664
Plant and Equipment:				
Distribution and Collection Systems	3,974,462	129,153	0	4,103,615
Machinery, Equipment and Signs	7,310	7,988	0	15,298
Subtotal	<u>4,020,896</u>	<u>137,141</u>	<u>0</u>	<u>4,158,037</u>
Less Accumulated Depreciation for:				
Land Improvement	2,609	364	0	2,973
Buildings	4,881	673	0	5,554
Plant and Equipment:				
Distribution and Collection Systems	1,737,664	106,471	0	1,844,135
Machinery, Equipment and Signs	<u>4,070</u>	<u>1,169</u>	<u>0</u>	<u>5,239</u>
Subtotal	<u>1,749,224</u>	<u>108,677</u>	<u>0</u>	<u>1,857,901</u>
Net Capital Assets Being Depreciated	<u>2,271,672</u>	<u>28,464</u>	<u>0</u>	<u>2,300,136</u>
Business-Type Activities Total Capital Assets - Net of Depreciation	<u>\$ 2,279,946</u>	<u>\$ 28,464</u>	<u>\$ 0</u>	<u>\$ 2,308,410</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities :	
General government	\$ 681
Recreation and cultural	<u>2,543</u>
Total Government Activities	<u>\$ 3,224</u>
Business-Type Activities :	
Sewer	\$ 39,216
Water	<u>69,461</u>
Total Business-Type Activities	<u>\$ 108,677</u>

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 8 - DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Real and Personal Property Taxes	\$ 0	\$ 593,538	\$ 593,538
Accounts Receivable	1,525	0	1,525
Grants Receivable	<u>0</u>	<u>11,025</u>	<u>11,025</u>
	<u>\$ 1,525</u>	<u>\$ 604,563</u>	<u>\$ 606,088</u>

NOTE 9 - LONG-TERM DEBT

At December 31, long-term debt consists of the following individual issues:

Business-Type

Primary government:

A. Contracts Payable:

Joint water supply system agreement with the City of East Tawas, the City of Tawas City, the Charter Township of Oscoda, and the Township of Baldwin through the Huron Shore Regional Utility Authority, dated May 1, 1996, due in annual installments through November 1, 2010, bearing interest at the rates of 4% to 5.65% to finance the cost of constructing a new water supply system. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The most current estimate of the Township's share is 14.39% of the total bond issue of \$7,930,000 or \$1,141,127.

\$ 243,910

Joint water supply system agreement with the City of Tawas City, the Charter Township of Oscoda, and the Township of Baldwin to finance the cost of constructing additions, extensions, improvements and related appurtenances to the Water and Sewer System No. 1 of the Huron Shores Regional Utility Authority, dated November 1, 1995, due in annual installments through May 1, 2015, bearing interest at the rates of 4.4% to 5.625%. The construction was originally funded with the proceeds of the Limited Tax General Obligation Bonds dated November 5, 1995. The most current estimate of the Township's share is 17.34% of the total bond issue of \$1,300,000 or \$225,420.

143,055
386,965

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 9 - LONG-TERM DEBT (CONTINUED)

B. General Obligation Bonds Payable:

\$875,000 Limited Tax General Obligation Water Supply System bonds, dated September 26, 1975 used for the purpose of constructing additions to the Township of AuSable water system. The bonds bear interest at 5% and are due in annual installments through 2015.

\$ 160,000

\$70,000 Limited Tax General Obligation Water Supply System bonds, dated April 26, 1978 used for the purpose of constructing additions to the Township of AuSable water system. The bonds bear interest at 5% and are due in annual installments through 2017.

22,000
182,000

Total Primary Government

\$ 568,965

C. Changes in Long Term Liabilities

	Balance January 1, 2007	Issues of Additions	Payments or Expenditures	Balance December 31, 2007	Due Within One Year
<u>Business-Type Activities</u>					
Primary Government:					
Contracts payable	\$ 584,965	\$ 0	\$ 198,000	\$ 386,965	\$ 95,028
General obligation bonds	<u>202,000</u>	<u>0</u>	<u>20,000</u>	<u>182,000</u>	<u>22,000</u>
Total primary government	<u>\$ 786,965</u>	<u>\$ 0</u>	<u>\$ 218,000</u>	<u>\$ 568,965</u>	<u>\$ 117,028</u>

The interest expenditures on long-term obligations for the year were \$39,277.

The annual aggregate maturities for all debt outstanding as of December 31, 2007 are as follows:

Contracts Payable

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 95,028	\$ 21,185	\$ 116,213
2009	94,309	16,003	110,312
2010	97,923	10,993	108,916
2011	17,340	5,120	22,460
2012	17,340	4,146	21,486
2013 - 2015	<u>65,025</u>	<u>5,487</u>	<u>70,512</u>
	<u>\$ 386,965</u>	<u>\$ 62,934</u>	<u>\$ 449,899</u>

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 9 - LONG-TERM DEBT (CONTINUED)

General Obligation Bonds

	<u>Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 22,000	\$ 8,550	\$ 30,550
2009	22,000	7,450	29,450
2010	22,000	6,350	28,350
2011	22,000	5,250	27,250
2012	22,000	4,150	26,150
2013 - 2017	<u>72,000</u>	<u>6,150</u>	<u>78,150</u>
	<u>\$ 182,000</u>	<u>\$ 37,900</u>	<u>\$ 219,900</u>

NOTE 10 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the functional level.

During the year ended December 31, 2007, the Township incurred expenditures in the General Fund which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Public Works:			
Street lighting	\$ 43,000	\$ 43,063	\$ 63
Health and Welfare:			
Agency on Aging	0	17,947	17,947

NOTE 11 - RESTRICTED ASSETS AND RESERVES

The Township is required under Ordinance #22 of the Iosco County Water Supply System Bonds to maintain certain restricted assets in the Water Fund. The ordinance provides that a "Contract Payment Fund" (restricted cash account) be established with quarterly deposits in amounts as shall be necessary to pay the contractual obligations when due. At December 31, 2007, the Township had a balance of \$102,520.

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 11 - RESTRICTED ASSETS AND RESERVES (CONTINUED)

Township Ordinance #22 also required that a "General Purpose Account" (restricted cash account) be established for repairing or replacing any damage to the system which may be caused by an unforeseen catastrophe, for making extensions or improvements to the system or, when necessary, for the purpose of making payments of the contractual obligations if the amount in the "Contract Payment Fund" is not sufficient to meet such payments. The balance of said account need not exceed the sum of \$25,000. At December 31, 2007, the Township had a balance of \$16,957.

NOTE 12 - RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Township continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 13 - DEFERRED COMPENSATION PLAN

The Township offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code (IRC), Section 457. The assets of the plan are held in trust, in a custodial account as described in IRC Section 457(g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the Township for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account, and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Township's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 GENERAL FUND
For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Current property taxes	\$ 459,888	\$ 477,904	\$ 471,402	\$ (6,502)
Licenses and permits	4,180	4,180	3,913	(267)
State grants and revenue	170,220	170,220	165,252	(4,968)
Contributions from local units	0	0	779	779
Fines and forfeits	0	0	40	40
Charges for services	11,590	11,590	3,757	(7,833)
Interest and rentals	22,050	22,050	35,054	13,004
Other revenue	2,800	2,800	3,357	557
Total revenue	<u>670,728</u>	<u>688,744</u>	<u>683,554</u>	<u>(5,190)</u>
<u>Expenditures</u>				
Current:				
General government				
Township board	33,578	41,282	40,854	428
Supervisor	4,046	4,081	3,276	805
Superintendent	60,710	61,371	59,901	1,470
Elections	1,414	1,524	1,501	23
Assessor	46,460	46,565	44,602	1,963
Legal and audit	32,809	37,489	33,714	3,775
Clerk	36,253	57,562	52,652	4,910
Board of review	1,617	1,669	1,304	365
Treasurer	31,886	39,837	39,005	832
Buildings and grounds	30,173	31,346	27,842	3,504
Cemetery	16,815	16,815	16,815	0
Public safety				
Police department	197,942	197,942	197,942	0
Public works				
Highways, streets and bridges	20,000	20,000	2,680	17,320
Street lighting	41,000	43,000	43,063	(63)
Health and welfare				
Agency on Aging	0	0	17,947	(17,947)
Community and economic development				
Planning commission	24,162	24,594	12,948	11,646
Economic development	6,225	8,571	8,353	218
Recreation and cultural				
Library	2,563	2,563	2,563	0
Recreation and parks	23,377	33,647	26,319	7,328
Capital outlay	23,496	15,546	13,067	2,479
Total expenditures	<u>634,526</u>	<u>685,404</u>	<u>646,348</u>	<u>39,056</u>
Excess of revenue over expenditures	36,202	3,340	37,206	33,866
Fund balances - beginning of year	<u>390,676</u>	<u>390,676</u>	<u>390,676</u>	<u>0</u>
Fund balances - end of year	<u>\$ 426,878</u>	<u>\$ 394,016</u>	<u>\$ 427,882</u>	<u>\$ 33,866</u>

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 FIRE FUND - SPECIAL REVENUE FUND
For the Year Ended December 31, 2007

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Current property taxes	\$ 101,120	\$ 101,120	\$ 101,123	\$ 3
Interest	<u>4,000</u>	<u>4,000</u>	<u>2,920</u>	<u>(1,080)</u>
Total revenue	105,120	105,120	104,043	(1,077)
<u>Expenditures</u>				
Current:				
Public safety	<u>91,412</u>	<u>91,412</u>	<u>89,737</u>	<u>1,675</u>
Excess of revenue over expenditures	13,708	13,708	14,306	598
Fund balances - beginning of year	<u>27,455</u>	<u>27,455</u>	<u>27,455</u>	<u>0</u>
Fund balances - end of year	<u>\$ 41,163</u>	<u>\$ 41,163</u>	<u>\$ 41,761</u>	<u>\$ 598</u>

OTHER INFORMATION

CHARTER TOWNSHIP OF AUSABLE
Iosco County, Michigan

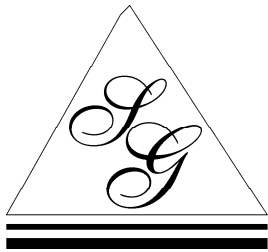
WATER FUND
SUPPLEMENTAL INFORMATION FOR CAPMARK FINANCE
For the Year Ended December 31, 2007

1. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America.
2. An evaluation of the system of internal control is included in the financial statements. Refer to the enclosed report on internal control over financial reporting and the management letter to Board members for unsatisfactory conditions that were noted during the audit and for our recommendations for improvement.
3. The Township's physical control of the assets is satisfactory.
4. The Charter Township of AuSable has complied with the loan agreement, including the maintenance of cash reserves.
5. The financial reports included in this audit are in agreement with the accounting records of the Township and no major or unusual adjustments were necessary.
6. Deposits of the Water Fund are in financial institutions insured by the federal government.
7. The Charter Township of AuSable is exempt from federal income tax.
8. An aging of accounts receivable as of December 31, 2007 is as follows:

<u>Days</u>	<u>Amount</u>
0 - 30	\$ 34,632
31 - 90	<u>11,123</u>
Total	<u>\$ 45,755</u>

9. The types of insurance coverage pertaining to the Water Fund as of December 31, 2007 are as follows:

<u>Type of Coverage</u>	<u>Policy Number</u>	<u>Amount of Coverage</u>	<u>Policy Expiration Date</u>
Property	MTP-221774	\$ 1,102,341	9/29/08
Liability	MTP-221774	4,000,000	9/29/08
Wrongful Acts	MTP-221774	3,000,000	9/29/08
Automobile	MTP-221774	2,000,000	9/29/08
Crime	MTP-221774	10,000	9/29/08
Inland marine	MTP-221774	85,000	9/29/08
Boiler	MTP-221774	250,000	9/29/08
EDP	MTP-221774	12,000	9/29/08
Workers compensation	WCV 0005609 05	600,000	10/01/08



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Kyle E Troyer, CPA

Herman A Bertuleit, CPA

May 15, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Township Board
Charter Township of AuSable
Iosco County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of AuSable as of and for the year ended December 31, 2007, which collectively comprise the Charter Township of AuSable's basic financial statements and have issued our report thereon dated May 15, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Charter Township of AuSable's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of AuSable's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Township of AuSable's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter Township of AuSable's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Charter Township of AuSable's financial statements that is more than inconsequential will not be prevented or detected by the Charter Township of AuSable's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting:

General Ledger Maintenance and Control

As a result of our risk assessment procedures it was determined that the general ledger for all funds was not being reviewed properly as required by the State of Michigan accounting procedures manual for Local Units of Government and the Michigan Township Association. Cash account activity and balances and water and sewer utility billing activity was reviewed and reconciled back to various bank reconciliations and utility billing and receipt reports. However, general ledger review of the payroll, tax, interfund and other revenue and expenditure activity was not performed throughout the year which resulted in numerous account classification errors and balances. We recommend that the Township Clerk review all general ledger activity, in all funds, to insure proper classification and coding of activity, completeness and that the account balances are materially correct for reporting purposes.

Township Board Reports

The Township Board was not provided with monthly financial reports as required by the State of Michigan Accounting Manual. We recommend that the Township Clerk provide monthly reports to the Township Board, for each fund, that include a balance sheet and profit and loss statements with a budget to actual presentation. These reports will be useful in controlling the budget as well as making other necessary financial decisions.

Financial Statement Preparation

The Charter Township of AuSable prepares various financial information throughout the year to assess operations and the financial condition of the Township. However, prior to closing the year end, various entries material to the financial statements were proposed by our firm. Also, the Township relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Charter Township of AuSable has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Township is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Township would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter Township of AuSable's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Charter Township of AuSable's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Township in a separate letter dated May 15, 2008.

View of Responsible Officials and Planned Corrective Actions:

General Ledger Maintenance and Control

The Township is implementing procedures immediately for required monthly review by the Township Clerk of all general ledger activity after all month end reconciliations and reports have been prepared.

Township Board Reports

The Township Clerk, with assistance from the Township Superintendent, will develop and present financial reports to the Township Board on a monthly basis. These reports will be produced from the current financial software package specifically designed for Governmental units based on the reconciled general ledger activity.

Members of the Township Board
Charter Township of AuSable
May 15, 2008
Page Three

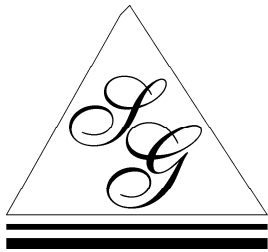
Financial Statement Preparation

The Township has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Township to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

The Township of AuSable's response to the findings identified in our audit is described above. We did not audit the Township of AuSable's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Township Board and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunth & Co., P.C.



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May 15, 2008

Members of the Township Board
Charter Township of AuSable
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of AuSable for the year ended December 31, 2007, and have issued our report thereon dated May 15, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated May 2, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Charter Township of AuSable. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Charter Township of AuSable's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on December 20, 2007.

Significant Audit Findings

Qualitative Aspects of Accounting Practice

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Charter Township of AuSable are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Charter Township of AuSable during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the Township's Investment in the Huron Shore Regional Utility Authority and the related contracts payable to the Authority is based on the Township's annual water usage compared to the total usage of the Authority as a whole. The investment value and bond debt liability fluctuates annually based on the above percentage calculation of annual water usage. We evaluated the key factors and assumptions used to

develop the investment and the related contracts payable liability in determining that it is reasonable in relation to the financial statements taken as a whole.

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 15, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

In planning and performing our audit of the financial statements of the Charter Township of AuSable for the year ended December 31, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. As a result of our consideration of the internal controls and tests of compliance as described in the third and fourth paragraphs, we offer the following recommendations for consideration.

General Ledger Maintenance and Control

As a result of our risk assessment procedures it was determined that the general ledger for all funds was not being reviewed properly as required by the State of Michigan accounting procedures manual for Local Units of Government and the Michigan Township Association. Cash account activity and balances and water and sewer utility billing activity was reviewed and reconciled back to various bank reconciliations and utility billing and receipt reports. However, general ledger review of the payroll, tax, interfund and other revenue and expenditure activity was not performed throughout the year which resulted in numerous account classification errors and balances. We recommend that the Township Clerk review all general ledger activity, in all funds, to insure proper classification and coding of activity, completeness and that the account balances are materially correct for reporting purposes.

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Tax Collection Account

During our audit fieldwork, we noted that the tax account was carrying many prior year outstanding receivable and payable balances due from/to various entities as a result of incorrect payment activities in prior years. Also, again this year, we noted numerous mispostings as it related to delinquent property tax collections and payments. We recommend that the Township Treasurer clean up all old outstanding balances in the 2008 fiscal year and that the general ledger be reviewed periodically to help avoid incorrect postings of delinquent property tax activity in the future.

Internal Control System and Documentation

As part of our risk assessment procedures, we looked at the Township's internal control system documentation and procedures. We determined that the Township has sound internal control policies and documentation in place for all departments except for the Township Clerk. We were able to conclude that there were good controls implemented in regards to the clerk's responsibilities except for in the general ledger monitoring and internal accounting and reporting areas as required by the State accounting manual. We believe this is a result of the Clerk not possessing a full understanding of the responsibilities required for the position in these areas. We recommend that the Township Clerk obtain the necessary training and education to properly educate her on the Clerk's responsibilities as well as to become more knowledgeable in governmental accounting principles to be able to properly perform the required general ledger monitoring and reporting procedures.

Budget Control

We noted that the Township's General Fund included expenditures in two functions that exceeded the appropriated amount. We recommend that the Township Board continue to review the adopted budgets on a periodic basis and amend as needed to be in compliance with the Uniform Budgeting and Accounting Act.

Members of the Township Board
Charter Township of AuSable
May 15, 2008
Page Four

Training and Education

We recommend that all Township elected officials and employees continue to attend annual training courses and updates to ensure that they are up to date and properly informed on current regulations, laws, responsibilities and other requirements pertinent to the Township and their specific positions.

Accounting and Budgeting Software

The Township implemented a new Accounting and Budgeting Software System in June 2007. This system integrated all aspects of the accounting system into one. The system should improve efficiency of the accounting procedures performed at the Township. The software has the capability to produce the required reports as mentioned earlier as long as they are properly set up. We recommend that Township personnel review the software manuals, as well as utilize the software support offered by the software company, to receive the full benefits the program has to offer.

Tax Levy Millage

It was brought to our attention during our audit fieldwork, that there was a miscalculation in the 2006 Senior Citizens tax levy millage amount. Upon further investigation it appears that the 2006 millage rate used exceeded the maximum rate authorized by election due to an error in completing the 2006 Tax Rate Request form L-4029. The error was discovered after the tax roll was established. The 2007 tax levy was adjusted to correct for any overages received on the 2006 levy. We recommend that more care be taken in preparing future L-4029 forms and that all authorized millage amounts be compared back to appropriate documents to avoid future levy calculation errors.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Township.

This information is intended solely for the use of management, the Township Board and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grault & Co., P.C.